

**GRAETTINGER COMMUNITY
SCHOOL DISTRICT**

**Independent Auditor's Report
Basic Financial Statements
and Supplementary Information
Schedule of Findings**

June 30, 2004

DAVID A. MASKE

Certified Public Accountant
Spencer, Iowa

GRAETTINGER COMMUNITY SCHOOL DISTRICT

TABLE OF CONTENTS

	PAGE
OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	3-5
 BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements:	
Statement of Net Assets	Exhibit A 6
Combined Statement of Activities	Exhibit B 7
Governmental Fund Financial Statements:	
Balance Sheet.....	Exhibit C 8
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets	Exhibit D 9
Statement of Revenues, Expenditures and Changes in Fund Balances	Exhibit E 10
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities.....	Exhibit F 11
Proprietary Fund Financial Statements:	
Statement of Net Assets	Exhibit G 12
Statement of Revenues, Expenses, and Changes in Fund Net Assets.....	Exhibit H 13
Statements of Cash Flows	Exhibit I 14
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Net Assets	Exhibit J 15
Statement of Changes I Fiduciary Net Assets	Exhibit K 16
Notes to Financial Statements	17-24
 REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Fund.....	25
Budget to GAAP Reconciliation.....	26
Notes to Required Supplementary Information – Budgetary Reporting	27
 OTHER SUPPLEMENTARY INFORMATION:	
Nonmajor Special Revenue Funds:	
Combining Balance Sheet.....	Schedule 1 28
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances	Schedule 2 29
Schedule of Changes in Special Revenue Fund, Student Activity Accounts.....	Schedule 3 30
Schedule of Revenues by Source and Expenditures By Function – All Governmental Funds.....	Schedule 4 31
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting.....	32
Schedule of Findings	33-34

GRAETTINGER COMMUNITY SCHOOL DISTRICT

OFFICIALS

NAME	TITLE	TERM EXPIRES
BOARD OF EDUCATION (Before September 2003 Election)		
Bill Brown	President	2004
Tom Tindall	Vice-President	2003
Rick Hopper	Board Member	2004
Duane Hoffman	Board Member	2005
Roger Schmitt	Board Member	2005

BOARD OF EDUCATION (After September 2003 Election)		
Bill Brown Jr.	President	2004
Rick Hopper	Vice-President	2004
Duane Hoffman	Board Member	2005
Roger Schmitt	Board Member	2005
Kevin Jensen	Board Member	2006

SCHOOL OFFICIALS		
Erwin Rowlands	Superintendent	2004
Lisa Chapman	District Secretary/Treasurer	2004
Stephen Avery	Attorney	Indefinite

DAVID A. MASKE

Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Graettinger Community School District:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Graettinger Community School District, Graettinger, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Graettinger Community School District at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 11 to the financial statements, during the year ended June 30, 2004, Graettinger Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, I have also issued my reports dated October 26, 2004, on my consideration of Graettinger School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 3 through 5 and 25 through 27 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Graettinger Community School District's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplemental information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the aforementioned statements taken as a whole.


DAVID A. MASKE
Certified Public Accountant

October 26, 2004
Spencer, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

Graettinger Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable with prior years. However, in future years, comparison will be more meaningful and will go further in explaining the District's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

General Fund revenue increased from \$2,540,521 in fiscal 2003 to \$2,581,286 in fiscal 2004, while General fund expenditures increased from \$2,314,418 to \$2,378,844 in fiscal year 2004. The District's General Fund balance increased from \$105,941 in fiscal 2003 to \$202,442 in fiscal 2004.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Graettinger Community School District as a whole and represent an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Graettinger Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Graettinger Community School District acts solely as an agent or custodian for the benefit of those outside of County government.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the financial statements.

Required supplementary information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds.

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The Government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of net Assets includes all of the District's assets and liabilities. All of the current year's revenue and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- § Governmental activities: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities .
- Business type activities: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its more significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) Governmental Funds: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures, and changes in fund balances.

- 2) Proprietary funds: Services for which the district charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

- 3) Fiduciary funds: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency Funds.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds includes a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

Governmental Activities

For 2004, revenues for governmental activities were \$2,802,368 and expenses were \$2,627,973.

The cost of governmental activities was financed with \$932,582 in property and other taxes, and \$1,112,187 from state sources, and \$126,899 from federal sources.

Business Type Activities

Revenues for business type activities were \$123,587 and expenses were \$108,163. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

Governmental Fund Highlights

- The General Fund balance increased from \$105,941 to \$308,383.
- The Physical Plant and Equipment Levy (PPEL) Fund balance decreased to \$21,706 in fiscal 2004 from \$29,046 in fiscal 2003.
- The Capital Projects Fund balance increased from \$20,067 in 2003 to \$22,945 in 2004.
- The Management Fund balance decreased to a deficit of \$(1,181) in 2004 from \$16,293 in 2003.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from a deficit \$(222) at June 30, 2003 to \$15,202 at June 30, 2004.

BUDGETARY HIGHLIGHTS

The District's receipts were \$2,199 more than budgeted receipts, a variance less than 1%.

Total expenditures were less than budgeted by \$364,375.

In spite of the District's budgetary practice, the certified budget was exceeded in the non-instructional and other expenditures functional areas due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$1.2 million, net of accumulated depreciation, in a broad range of capital assets including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. More detailed information about the District's capital assets is presented in Note 6 to the financial statements. Depreciation expense for the year was \$94,639.

Long-Term Debt

At June 30, 2004, the district had no outstanding bonds or notes payable.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact Lisa Chapman, District Secretary / Treasurer.

BASIC FINANCIAL STATEMENTS

GRAETTINGER COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS **JUNE 30, 2004**

	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTAL
<u>ASSETS</u>			
Cash and Cash Equivalents:			
ISCAP	\$ 119,000	\$ -0-	\$ 119,000
Other	519,563	8,267	527,830
Receivables:			
Property Tax:			
Delinquent.....	13,204	-0-	13,204
Succeeding Year.....	915,000	-0-	915,000
Accounts	153,574	-0-	153,574
Accrued Interest:			
ISCAP	1,462	-0-	1,462
Due from Other Governments	2,084	-0-	2,084
Inventories.....	-0-	6,935	6,935
Capital Assets, Net of Accumulated Depreciation	<u>1,228,963</u>	<u>-0-</u>	<u>1,228,963</u>
TOTAL ASSETS	<u>\$2,952,850</u>	<u>\$ 15,202</u>	<u>\$2,968,052</u>
<u>LIABILITIES</u>			
Cash in Bank – Deficit.....	\$ 1,569	\$ -0-	\$ 1,569
Accounts Payable	136,889	-0-	136,889
Salaries and Benefits Payable	177,908	-0-	177,908
Deferred Revenue – Succeeding Year Property Tax.....	915,000	-0-	915,000
ISCAP Warrants Payable.....	119,000	-0-	119,000
ISCAP Accrued Interest Payable	988	-0-	988
Long-Term Liabilities:			
Compensated Absences.....	<u>5,738</u>	<u>-0-</u>	<u>5,738</u>
TOTAL LIABILITIES	<u>\$1,357,092</u>	<u>\$ -0-</u>	<u>\$1,357,092</u>
<u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	\$1,228,963	\$ -0-	\$1,228,963
Restricted For:			
Management Levy	(1,181)	-0-	(1,181)
Physical Plant and Equipment Levy.....	21,706	-0-	21,706
Other Special Revenue Purposes	20,680	-0-	20,680
Unrestricted.....	<u>325,590</u>	<u>15,202</u>	<u>340,792</u>
TOTAL NET ASSETS	<u>\$1,595,758</u>	<u>\$ 15,202</u>	<u>\$1,610,960</u>

See notes to financial statements.

GRAETTINGER COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
	EXPENSES	CHARGES FOR SERVICE	OPERATING GRANTS, CONTRIBUTIONS & RESTRICTED INTEREST	CAPITAL GRANTS, CONTRIBUTIONS & RESTRICTED INTEREST	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTAL
Functions / Programs:							
Governmental Activities:							
Instruction:							
Regular Instruction	\$ 981,371	\$ 495,888	\$ 1,319	\$ -0-	\$ (484,164)	\$ -0-	\$ (484,164)
Special Instruction	424,182	-0-	126,899	-0-	(297,283)	-0-	(297,283)
Other Instruction	546,488	91,533	-0-	-0-	(454,955)	-0-	(454,955)
	<u>\$ 1,952,041</u>	<u>\$ 587,421</u>	<u>\$ 128,218</u>	<u>\$ -0-</u>	<u>\$ (1,236,402)</u>	<u>\$ -0-</u>	<u>\$ (1,236,402)</u>
Support Services:							
Student Services.....	\$ 2,638	\$ -0-	\$ -0-	\$ -0-	\$ (2,638)	\$ -0-	\$ (2,638)
Instructional Staff Services	40,687	-0-	-0-	-0-	(40,687)	-0-	(40,687)
Administration Services	232,608	-0-	-0-	-0-	(232,608)	-0-	(232,608)
Operation & Maintenance of Plant Services	241,671	-0-	41,960	-0-	(199,711)	-0-	(199,711)
Transportation Services	59,614	-0-	-0-	-0-	(59,614)	-0-	(59,614)
	<u>\$ 577,218</u>	<u>\$ -0-</u>	<u>\$ 41,960</u>	<u>\$ -0-</u>	<u>\$ (535,258)</u>	<u>\$ -0-</u>	<u>\$ (535,258)</u>
Non-Instructional Programs	<u>\$ 2,219</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ (2,219)</u>	<u>\$ -0-</u>	<u>\$ (2,219)</u>
Other Expenditures:							
Facilities Acquisition	\$ 14,186	\$ -0-	\$ -0-	\$ -0-	\$ (14,186)	\$ -0-	\$ (14,186)
AEA Flowthrough	82,309	-0-	82,309	-0-	-0-	-0-	-0-
Depreciation (Unallocated) *	6,429	-0-	-0-	-0-	(6,429)	-0-	(6,429)
	<u>\$ 102,924</u>	<u>\$ -0-</u>	<u>\$ 82,309</u>	<u>\$ -0-</u>	<u>\$ (20,615)</u>	<u>\$ -0-</u>	<u>\$ (20,615)</u>
Total Governmental Activities	\$ 2,634,402	\$ 587,421	\$ 252,487	\$ -0-	\$ (1,794,494)	\$ -0-	\$ (1,794,494)
Business Type Activities:							
Non-Instructional Programs:							
Food Service Operations	<u>108,163</u>	<u>72,108</u>	<u>51,479</u>	<u>-0-</u>	<u>-0-</u>	<u>15,424</u>	<u>15,424</u>
TOTAL	<u>\$ 2,742,565</u>	<u>\$ 659,529</u>	<u>\$ 303,966</u>	<u>\$ -0-</u>	<u>\$ (1,794,494)</u>	<u>\$ 15,424</u>	<u>\$ (1,779,070)</u>
General Revenue:							
Property Tax Levied For:							
General Purpose					\$ 833,209	\$ -0-	\$ 833,209
Local Option Sales and Service Tax					17,064	-0-	17,064
Unrestricted State Grants					<u>1,112,187</u>	<u>-0-</u>	<u>1,112,187</u>
TOTAL GENERAL REVENUES					<u>\$ 1,962,460</u>	<u>\$ -0-</u>	<u>\$ 1,962,460</u>
Change in Net Assets					\$ 167,966	\$ 15,424	\$ 183,390
Net Assets – Beginning of Year, as Restated					<u>1,427,792</u>	<u>(222)</u>	<u>1,427,570</u>
Net Assets – End of Year					<u>\$ 1,595,758</u>	<u>\$ 15,202</u>	<u>\$ 1,610,960</u>

* This amount excludes the depreciation that is included in the direct expenses of the various programs.

See notes to financial statements.

GRAETTINGER COMMUNITY SCHOOL DISTRICT**BALANCE SHEET
GOVERNMENTAL FUNDS**

JUNE 30, 2004

	GENERAL	CAPITAL PROJECTS	NONMAJOR SPECIAL REVENUE	TOTAL
<u>ASSETS</u>				
Cash and Cash Equivalents:				
ISCAP	\$ 119,000	\$ -0-	\$ -0-	\$ 119,000
Other	456,994	20,861	41,708	519,563
Receivables:				
Property Tax:				
Delinquent.....	12,138	-0-	1,066	13,204
Succeeding Year.....	846,000	-0-	69,000	915,000
Accounts	153,574	-0-	-0-	153,574
Accrued Interest:				
ISCAP	1,462	-0-	-0-	1,462
Due from Other Governments	<u>-0-</u>	<u>2,084</u>	<u>-0-</u>	<u>2,084</u>
TOTAL ASSETS	<u>\$1,589,168</u>	<u>\$ 22,945</u>	<u>\$ 111,774</u>	<u>\$1,723,887</u>
<u>LIABILITIES</u>				
Cash in Bank – Deficit.....	\$ -0-	\$ -0-	\$ 1,569	\$ 1,569
Accounts Payable	136,889	-0-	-0-	136,889
Salaries and Benefits Payable	177,908	-0-	-0-	177,908
ISCAP Warrants Payable.....	119,000	-0-	-0-	119,000
ISCAP Accrued Interest Payable	988	-0-	-0-	988
Deferred Revenue:				
Succeeding Year Property Tax.....	<u>846,000</u>	<u>-0-</u>	<u>69,000</u>	<u>915,000</u>
TOTAL LIABILITIES	\$1,280,785	\$ -0-	\$ 70,569	\$1,351,354
<u>FUND BALANCES</u>				
Unreserved	<u>308,383</u>	<u>22,945</u>	<u>41,205</u>	<u>372,533</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$1,589,168</u>	<u>\$ 22,945</u>	<u>\$ 111,774</u>	<u>\$1,723,887</u>

See notes to financial statements.

GRAETTINGER COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS

JUNE 30, 2004

Total Fund Balances of Governmental Funds (Page 10) \$ 372,533

Amounts reported for governmental activities in the
Statement of Net Assets are different because:

Capital Assets used in governmental activities are not
financial resources and, therefore, are not reported as
assets in the governmental funds 1,228,963

Long-term liabilities, including bonds and notes payable
and compensated absences, are not due and payable in
the current period and, therefore, are not reported in the
funds (5,738)

Net Assets of Governmental Activities (Page 7) \$ 1,595,758

See notes to financial statements.

GRAETTINGER COMMUNITY SCHOOL DISTRICT**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

YEAR ENDED JUNE 30, 2004

	GENERAL	CAPITAL PROJECTS	NONMAJOR SPECIAL REVENUE	TOTAL
Revenues:				
Local Source:				
Local Tax	\$ 846,312	\$ 17,064	\$ 69,206	\$ 932,582
Tuition	94,093	-0-	-0-	94,093
Other	38,827	-0-	134,812	173,639
Intermediate Sources.....	362,968	-0-	-0-	362,968
State Sources	1,112,187	-0-	-0-	1,112,187
Federal Sources	<u>126,899</u>	<u>-0-</u>	<u>-0-</u>	<u>126,899</u>
TOTAL REVENUES	<u>\$2,581,286</u>	<u>\$ 17,064</u>	<u>\$ 204,018</u>	<u>\$2,802,368</u>
Expenditures:				
Current:				
Instruction:				
Regular Instruction	\$ 938,008	\$ -0-	\$ 43,363	\$ 981,371
Special Instruction	424,182	-0-	-0-	424,182
Other Instruction	<u>448,844</u>	<u>-0-</u>	<u>97,644</u>	<u>546,488</u>
	<u>\$1,811,034</u>	<u>\$ -0-</u>	<u>\$ 141,007</u>	<u>\$1,952,041</u>
Support Services:				
Student Services	\$ 2,638	\$ -0-	\$ -0-	\$ 2,638
Instructional Staff Services.....	40,687	-0-	-0-	40,687
Administration Services.....	225,753	-0-	6,855	232,608
Operation & Maintenance of				
Plant Services.....	154,590	-0-	87,081	241,671
Transportation Services.....	<u>59,614</u>	<u>-0-</u>	<u>-0-</u>	<u>59,614</u>
	<u>\$ 483,282</u>	<u>\$ -0-</u>	<u>\$ 93,936</u>	<u>\$ 577,218</u>
Non-Instructional Programs	<u>\$ 2,219</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 2,219</u>
Other Expenditures:				
Facility Acquisition	\$ -0-	\$ 14,186	\$ -0-	\$ 14,186
AEA Flowthrough	<u>82,309</u>	<u>-0-</u>	<u>-0-</u>	<u>82,309</u>
	<u>\$ 82,309</u>	<u>\$ 14,186</u>	<u>\$ -0-</u>	<u>\$ 96,495</u>
TOTAL EXPENDITURES	<u>\$2,378,844</u>	<u>\$ 14,186</u>	<u>\$ 234,943</u>	<u>\$2,627,973</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ 202,442	\$ 2,878	\$ (30,925)	\$ 174,395
FUND BALANCES – BEGINNING OF YEAR, as restated (Note 11)	<u>105,941</u>	<u>20,067</u>	<u>72,130</u>	<u>198,138</u>
FUND BALANCES – END OF YEAR	<u>\$ 308,383</u>	<u>\$ 22,945</u>	<u>\$ 41,205</u>	<u>\$ 372,533</u>

See notes to financial statements.

GRAETTINGER COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

Net Change in Fund Balances - Total Governmental Funds (Page 10) \$ 174,395

Amounts reported for governmental activities in the
Statement of Activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:

Expenditures for Capital Assets	\$ 93,948	
Depreciation Expense	<u>(94,639)</u>	(691)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Compensated Absences	<u>(5,738)</u>
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Change in Net Assets of Governmental Activities (Page 7) \$ 167,966

GRAETTINGER COMMUNITY SCHOOL DISTRICT**STATEMENT OF NET ASSETS
PROPRIETARY FUND**

JUNE 30, 2004

	<u>School Nutrition</u>
<u>ASSETS</u>	
Cash and Cash Equivalents.....	\$ 8,267
Inventories.....	<u>6,935</u>
TOTAL ASSETS	<u>\$ 15,202</u>
<u>LIABILITIES</u>	
None.....	<u>\$ -0-</u>
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt.....	\$ -0-
Unrestricted.....	<u>15,202</u>
TOTAL NET ASSETS	<u><u>\$ 15,202</u></u>

See notes to financial statements.

GRAETTINGER COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2004

	<u>School Nutrition</u>
Operating Revenues:	
Local Sources:	
Charges for Service	\$ 72,108
Operating Expenses:	
Food Service Operations:	
Non-Instructional Programs:	
Salaries and Benefits	\$ 44,378
Benefits	10,697
Supplies	<u>53,088</u>
TOTAL OPERATING EXPENSES	<u>\$ 108,163</u>
OPERATING LOSS	\$ (36,055)
Non-Operating Revenues:	
State Sources	\$ 1,859
Federal Sources	<u>49,620</u>
TOTAL NON-OPERATING REVENUES	<u>\$ 51,479</u>
CHANGE IN NET ASSETS	\$ 15,424
NET ASSETS – BEGINNING OF YEAR	<u>(222)</u>
NET ASSETS – END OF YEAR	<u>\$ 15,202</u>

See notes to financial statements.

GRAETTINGER COMMUNITY SCHOOL DISTRICT**STATEMENT OF CASH FLOWS
PROPRIETARY FUND**

YEAR ENDED JUNE 30, 2004

	<u>School Nutrition</u>
Cash Flows from Operating Activities:	
Cash Received from Sale of Lunches and Breakfasts	\$ 72,108
Cash Paid to Employees for Services	(55,075)
Cash Paid to Suppliers for Goods or Services	(41,105)
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (24,072)</u>
Cash Flows from Non-Capital Financing Activities:	
State Grants Received.....	\$ 1,859
Federal Grants Received.....	<u>38,051</u>
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>\$ 39,910</u>
Cash Flows from Capital and Related Financing Activities:	
Interfund Payable Retired	<u>\$ (11,100)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ 4,738
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>3,529</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 8,267</u></u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities:	
Operating Loss	\$ (36,055)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Commodities Used	11,569
Decrease in Inventories	<u>414</u>
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (24,072)</u></u>

Non-Cash Investing, Capital and Financing Activities:

During the year ended June 30, 2004, the District received \$11,569 of federal commodities.

See notes to financial statements.

GRAETTINGER COMMUNITY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND

JUNE 30, 2004

	<u>Private Purpose Trust Scholarship</u>
 <u>ASSETS</u>	
Cash and Pooled Investments	\$ 4,600
 TOTAL ASSETS	 \$ 4,600
 <u>LIABILITIES</u>	
None.....	\$ -0-
 <u>NET ASSETS</u>	
Reserved for Scholarships.....	\$ 4,600

See notes to financial statements.

GRAETTINGER COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2004

	<u>Private Purpose Trust Scholarship</u>
Additions:	
Local Sources:	
Interest Income	\$ 138
Deductions:	
Support Sources:	
Scholarships Awarded	<u> 138</u>
CHANGE IN NET ASSETS	\$ -0-
NET ASSETS – BEGINNING OF YEAR	<u> 4,600</u>
NET ASSETS – END OF YEAR	<u><u> 4,600</u></u>

GRAETTINGER COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Graettinger Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the City of Graettinger, Iowa, and the predominate agricultural territory in the surrounding counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. REPORTING ENTITY

For financial reporting purposes, Graettinger Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. Graettinger Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

B. BASIS OF PRESENTATION

Government-Wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

GRAETTINGER COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED:

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

GRAETTINGER COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING – CONTINUED:

The proprietary fund of the District applied all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standard Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records of the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. ASSETS, LIABILITIES AND FUND EQUITY

The following accounting policies are followed in preparing the combined balance sheet:

Cash, Pooled Investments, and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental fund types is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property taxes receivable represents unpaid taxes from the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and the fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2003.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants, and reimbursements from other governments.

GRAETTINGER COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

D. ASSETS, LIABILITIES AND FUND EQUITY – CONTINUED:

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 2,000
Buildings	10,000
Improvements Other Than Buildings	10,000
Furniture and Equipment:	
School Nutrition Fund Equipment	500
Other Furniture and Equipment	2,000

Capital Assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements Other Than Buildings	20-50 years
Furniture and Equipment	5-15 years

Salaries and Benefits Payable – Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amount's is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

GRAETTINGER COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

D. ASSETS, LIABILITIES AND FUND EQUITY – CONTINUED:

Long-Term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. BUDGETS AND BUDGETARY ACCOUNTING

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements in the non-instructional and other expenditures functional areas exceeded the amounts budgeted.

NOTE 2 - CASH AND POOLED INVESTMENTS:

The District's deposits in banks at June 30, 2004, were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies, and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

NOTE 3 – DUE FROM AND DUE TO OTHER FUNDS:

There were no interfund receivables or payables at June 30, 2004.

NOTE 4 – INTERFUND TRANSFERS:

There were no interfund transfers for the year ended June 30, 2004.

NOTE 5 - IOWA SCHOOL CASH ANTICIPATION PROGRAM (ISCAP):

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needed during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2004, is as follows:

<u>SERIES</u>	<u>DATE(S) FUNDS ARE AVAILABLE</u>	<u>FINAL WARRANT MATURITY</u>	<u>INVEST- MENTS</u>	<u>ACCRUED INTEREST RECEIVABLE</u>	<u>WARRANTS PAYABLE</u>	<u>ACCRUED INTEREST PAYABLE</u>
2003-04B	01/30/04	01/28/05	\$ 119,000	\$ 1,462	\$ 119,000	\$ 988

GRAETTINGER COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2004

NOTE 5 - IOWA SCHOOL CASH ANTICIPATION PROGRAM (ISCAP) – CONTINUED:

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2004 is as follows:

NONE

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

SERIES	INTEREST RATES ON WARRANTS	INTEREST RATES ON INVESTMENTS
2003-2004B	2.000%	1.392%

NOTE 6 – CAPITAL ASSETS:

Capital Assets activity for the year ended June 30, 2004, was as follows:

	BALANCE BEGINNING OF YEAR, as Restated (Note 11)	INCREASES	DECREASES	BALANCE END OF YEAR
Governmental Activities:				
Capital Assets Being Depreciated:				
Buildings	\$ 1,540,424	\$ -0-	\$ -0-	\$ 1,540,424
Improvements Other Than Buildings	-0-	62,650	-0-	62,650
Furniture and Equipment.....	918,460	31,298	-0-	949,758
Total Capital Assets Being Depreciated	\$ 2,458,884	\$ 93,948	\$ -0-	\$ 2,552,832
LESS - Accumulated Depreciation For:				
Buildings	\$ 770,000	\$ 30,800	\$ -0-	\$ 800,800
Improvements Other Than Buildings	-0-	1,566	-0-	1,566
Furniture and Equipment.....	459,230	62,273	-0-	521,503
Total Accumulated Depreciation	\$ 1,229,230	\$ 94,639	\$ -0-	\$ 1,323,869
Total Capital Assets Being Depreciated, Net	\$ 1,229,654	\$ (691)	\$ -0-	\$ 1,228,963
Governmental Activities Capital Assets, Net	\$ 1,229,654	\$ (691)	\$ -0-	\$ 1,228,963
	BALANCE BEGINNING OF YEAR	INCREASES	DECREASES	BALANCE END OF YEAR
Business Type Activities:				
Furniture and Equipment.....	\$ 19,836	\$ -0-	\$ -0-	\$ 19,836
LESS – Accumulated Depreciation	19,836	-0-	-0-	19,836
Business Type Activities Capital Assets, Net	\$ -0-	\$ -0-	\$ -0-	\$ -0-

GRAETTINGER COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2004

NOTE 6 – CAPITAL ASSETS - CONTINUED):

Depreciation expense was charged to the following functions:

Governmental Activities:

Instruction:	
Regular	\$ 29,387
Support Services:	
Administration	3,114
Operation and Maintenance of Plant	30,800
Transportation	24,909
	<u>\$ 88,210</u>
Unallocated	<u>6,429</u>
Total Depreciation Expense – Governmental Activities	<u>\$ 94,639</u>

Business Type Activities:

Food Service Operations	<u>\$ -0-</u>
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NOTE 7 – LONG-TERM LIABILITIES:

Changes in long-term liabilities for the year ended June 30, 2004, are summarized as follows:

	BALANCE BEGINNING OF YEAR	ADDITIONS	REDUCTIONS	BALANCE END OF YEAR	DUE WITHIN ONE YEAR
Compensated Absences	<u>\$ -0-</u>	<u>\$ 5,738</u>	<u>\$ -0-</u>	<u>\$ 5,738</u>	<u>\$ 5,738</u>

NOTE 8 - PENSION AND RETIREMENT BENEFITS:

The District contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003, and 2002. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002, were \$67,248, \$61,126, and \$76,464 respectively, equal to the required contributions for each year.

NOTE 9 - RISK MANAGEMENT:

Graettinger Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 10 - AREA EDUCATION AGENCY:

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$82,309 for the year ended June 30, 2004, and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

GRAETTINGER COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

JUNE 30, 2004

NOTE 11 – ACCOUNTING CHANGE AND RESTATEMENTS:

Governmental Accounting Standards Board Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, was implemented for the year ended June 30, 2004. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ending June 30, 2004. The statements create new basic financial statements reporting the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements separate the District's program between governmental and business type activities. The beginning net assets for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003, caused by the conversion to the accrual basis of accounting.

The effects of the accounting changes and other restatements in the governmental activities are summarized as follows:

	FUND			
	GENERAL	CAPITAL PROJECTS	NONMAJOR SPECIAL REVENUE	TOTAL
Net Assets July 1, 2003, as				
Restated for Governmental Funds	\$ 105,941	\$ 20,067	\$ 72,130	\$ 198,138
GASB 34 Adjustments:				
Capital assets, net of accumulated depreciation of \$1,229,230				1,229,654
Net Assets – July 1, 2003, as Restated				\$ 1,427,792

REQUIRED SUPPLEMENTARY INFORMATION

GRAETTINGER COMMUNITY SCHOOL DISTRICT

**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND
REQUIRED SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2004

	GOVERNMENTAL FUNDS ACTUAL	PROPRIETARY FUND ACTUAL	TOTAL ACTUAL	BUDGETED AMOUNTS FINAL	FINAL TO ACTUAL VARIANCE
RECEIPTS:					
Local Sources	\$ 1,075,719	\$ 72,108	\$ 1,147,827	\$ 1,288,465	\$ (140,638)
Intermediate Sources	362,968	-0-	362,968	161,000	201,968
State Sources	1,112,187	1,859	1,114,046	1,079,747	34,299
Federal Sources	<u>126,899</u>	<u>38,051</u>	<u>164,950</u>	<u>258,380</u>	<u>(93,430)</u>
TOTAL RECEIPTS	\$ 2,677,773	\$ 112,018	\$ 2,789,791	\$ 2,787,592	\$ 2,199
DISBURSEMENTS:					
Instruction	\$ 1,642,204	\$ -0-	\$ 1,642,204	\$ 1,887,579	\$ 245,375
Support Services	577,218	-0-	577,218	670,711	93,493
Non-Instructional Programs	2,219	107,280	109,499	106,264	(3,235)
Other Expenditures	<u>96,495</u>	<u>-0-</u>	<u>96,495</u>	<u>82,309</u>	<u>(14,186)</u>
TOTAL DISBURSEMENTS	\$ 2,318,136	\$ 107,280	\$ 2,425,416	\$ 2,746,863	\$ 321,447
EXCESS (DEFICIENCY) OF RECEIPTS OVER DISBURSEMENTS	\$ 359,637	\$ 4,738	\$ 364,375	\$ 40,729	\$ 323,646
OTHER FINANCING SOURCES, Net	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>12,000</u>	<u>(12,000)</u>
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	\$ 359,637	\$ 4,738	\$ 364,375	\$ 52,729	\$ 311,646
BALANCES - BEGINNING OF YEAR	<u>159,926</u>	<u>3,529</u>	<u>163,455</u>	<u>211,290</u>	<u>(47,835)</u>
BALANCES - END OF YEAR	<u>\$ 519,563</u>	<u>\$ 8,267</u>	<u>\$ 527,830</u>	<u>\$ 264,019</u>	<u>\$ 263,811</u>

See accompanying independent auditor's report.

GRAETTINGER COMMUNITY SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE – BUDGET TO GAAP RECONCILIATION REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2004

	-----Governmental Funds-----		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 2,677,773	\$ 124,595	\$ 2,802,368
Expenditures.....	<u>2,318,136</u>	<u>309,837</u>	<u>2,627,973</u>
Net	\$ 359,637	\$ (185,242)	\$ 174,395
 BEGINNING FUND BALANCES	 <u>159,926</u>	 <u>38,212</u>	 <u>198,138</u>
ENDING FUND BALANCES	<u>\$ 519,563</u>	<u>\$ (147,030)</u>	<u>\$ 372,533</u>

	-----Proprietary Fund Enterprise-----		
	Cash Basis	Accrual Adjust- ments	Accrual Basis
Revenues	\$ 112,018	\$ 11,569	\$ 123,587
Expenditures.....	<u>107,280</u>	<u>883</u>	<u>108,163</u>
Net	\$ 4,738	\$ 10,686	\$ 15,424
 Beginning Net Assets	 <u>3,529</u>	 <u>(3,751)</u>	 <u>(222)</u>
Ending Net Assets	<u>\$ 8,267</u>	<u>\$ 6,935</u>	<u>\$ 15,202</u>

See accompanying independent auditor's report.

GRAETTINGER COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING

YEAR ENDED JUNE 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2004, disbursements in the non-instructional and other expenditures functions exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

GRAETTINGER COMMUNITY SCHOOL DISTRICT**COMBINING BALANCE SHEET
NON-MAJOR SPECIAL REVENUE FUNDS**

JUNE 30, 2004

	MANAGE- MENT LEVY	STUDENT ACTIVITY	PHYSICAL PLANT AND EQUIPMENT LEVY	TOTAL
<u>ASSETS</u>				
Cash and Pooled Investments	\$ -0-	\$ 20,680	\$ 21,028	\$ 41,708
Receivables:				
Property Tax:				
Delinquent	388	-0-	678	1,066
Succeeding Year	<u>25,000</u>	<u>-0-</u>	<u>44,000</u>	<u>69,000</u>
TOTAL ASSETS	<u>\$ 25,388</u>	<u>\$ 20,680</u>	<u>\$ 65,706</u>	<u>\$ 111,774</u>
<u>LIABILITIES AND FUND EQUITY</u>				
Liabilities:				
Cash in Bank – Deficit	\$ 1,569	\$ -0-	\$ -0-	\$ 1,569
Deferred Revenue:				
Succeeding Year Property Tax	<u>25,000</u>	<u>-0-</u>	<u>44,000</u>	<u>69,000</u>
TOTAL LIABILITIES	<u>\$ 26,569</u>	<u>\$ -0-</u>	<u>\$ 44,000</u>	<u>\$ 70,569</u>
Fund Equity:				
Unreserved Fund Balances	<u>\$ (1,181)</u>	<u>\$ 20,680</u>	<u>\$ 21,706</u>	<u>\$ 41,205</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 25,388</u>	<u>\$ 20,680</u>	<u>\$ 65,706</u>	<u>\$ 111,774</u>

See accompanying independent auditor's report.

GRAETTINGER COMMUNITY SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR SPECIAL REVENUE FUNDS

YEAR ENDED JUNE 30, 2004

	MANAGE- MENT LEVY	STUDENT ACTIVITY	PHYSICAL PLANT AND EQUIPMENT LEVY	TOTAL
Revenues:				
Local Sources:				
Local Tax	\$ 25,080	\$ -0-	\$ 44,126	\$ 69,206
Other	<u>1,319</u>	<u>91,533</u>	<u>41,960</u>	<u>134,812</u>
TOTAL REVENUES	<u>\$ 26,399</u>	<u>\$ 91,533</u>	<u>\$ 86,086</u>	<u>\$ 204,018</u>
Expenditures:				
Current:				
Instruction:				
Regular Instruction.....	\$ 13,609	\$ -0-	\$ 29,754	\$ 43,363
Other Instruction	-0-	97,644	-0-	97,644
Support Services:				
Administration Services	6,855	-0-	-0-	6,855
Operation & Maintenance of Plant Services.....	<u>23,409</u>	<u>-0-</u>	<u>63,672</u>	<u>87,081</u>
TOTAL EXPENDITURES	<u>\$ 43,873</u>	<u>\$ 97,644</u>	<u>\$ 93,426</u>	<u>\$ 234,943</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ (17,474)	\$ (6,111)	\$ (7,340)	\$ (30,925)
FUND BALANCES – BEGINNING OF YEAR, as Restated	<u>16,293</u>	<u>26,791</u>	<u>29,046</u>	<u>72,130</u>
FUND BALANCES – END OF YEAR	<u>\$ (1,181)</u>	<u>\$ 20,680</u>	<u>\$ 21,706</u>	<u>\$ 41,205</u>

See Accompanying Independent Auditor's Report.

GRAETTINGER COMMUNITY SCHOOL DISTRICT**SCHEDULE OF CHANGES IN SPECIAL REVENUE FUNDS
ACTIVITY ACCOUNTS**

YEAR ENDED JUNE 30, 2004

ACCOUNT	BALANCE BEGINNING OF YEAR	REVENUES	EXPEND- ITURES	INTER- FUND- TRANSFERS	BALANCE END OF YEAR
Student Council	\$ 3,252	\$ 7,848	\$ 9,773	\$ 728	\$ 2,055
Future Farmers of America	1,032	18,666	18,756	-0-	942
Cheerleaders	1,218	1,182	2,073	-0-	327
Future Homemakers of America	759	20	-0-	(713)	66
Honor Society	978	1,723	1,380	-0-	1,321
Speech/Drama	-0-	52	70	18	-0-
Athletics	7,268	22,706	24,733	(159)	5,082
Senior Class	-0-	2,261	2,016	(53)	192
Junior Class	3,331	12,215	12,235	-0-	3,311
Sophomore Class	430	732	736	-0-	426
Annual	1,278	4,166	4,650	-0-	794
Band	-0-	1,508	1,197	-0-	311
Vocal Music	205	94	377	79	1
Book Rental	-0-	6,929	6,223	(706)	-0-
Miscellaneous	4,894	607	3,429	928	3,000
Library	61	51	9	-0-	103
Summer Program	300	-0-	620	(180)	(500)
Interest	-0-	101	-0-	(101)	-0-
Principal's Office	1,389	3,158	4,431	-0-	116
Art	146	-0-	-0-	-0-	146
Girls Basketball	151	915	680	-0-	386
Foundation	99	2,502	-0-	-0-	2,601
Play	-0-	2,185	2,344	159	-0-
TOTAL	\$ 26,791	\$ 89,621	\$ 95,732	\$ -0-	\$ 20,680

See accompanying independent auditor's report.

GRAETTINGER COMMUNITY SCHOOL DISTRICT**SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUNDS**

YEARS ENDED JUNE 30,

 MODIFIED ACCRUAL BASIS			
	2004	2003	2002	2001
Revenues:				
Local Sources:				
Local Tax:	\$ 932,582	\$ 894,696	\$ 868,900	\$ 757,170
Tuition	94,093	113,764	23,009	238,186
Other	173,639	149,526	178,053	149,259
Intermediate Sources	362,968	160,529	163,366	16,140
State Sources	1,112,187	1,189,779	1,135,833	1,049,483
Federal Sources	<u>126,899</u>	<u>207,445</u>	<u>117,947</u>	<u>137,068</u>
TOTAL	<u>\$ 2,802,368</u>	<u>\$ 2,715,739</u>	<u>\$ 2,487,108</u>	<u>\$ 2,347,306</u>
Expenditures				
Instruction:				
Regular Instruction	\$ 981,371	\$ 1,016,936	\$ 960,138	\$ 1,011,848
Special Instruction	424,182	390,956	367,662	363,505
Other Instruction	546,488	370,251	508,058	278,615
Support Services:				
Student Services	2,638	1,362	35,598	57,387
Instructional Staff Services	40,687	105,979	97,946	135,370
Administration Services	232,608	279,056	309,326	300,920
Operation & Maintenance of Plant Services	241,671	156,445	149,990	183,040
Transportation Services	59,614	52,368	48,541	51,383
Central Support Services	-0-	5,850	3,818	3,416
Non-Instructional Programs	2,219	-0-	-0-	-0-
Other Expenditures:				
Facilities Acquisition	14,186	32,476	84,308	66,137
AEA Flowthrough	<u>82,309</u>	<u>88,607</u>	<u>86,814</u>	<u>85,056</u>
TOTAL	<u>\$ 2,627,973</u>	<u>\$ 2,500,286</u>	<u>\$ 2,652,199</u>	<u>\$ 2,536,677</u>

See accompanying independent auditor's report.

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

To the Board of Education
Graettinger Community School District
Graettinger, Iowa

I have audited the financial statements of Graettinger Community School District, as of and for the year ended June 30, 2004, and have issued my report thereon dated October 26, 2004. I conducted my audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Graettinger Community School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the District. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved.

Internal Control Over Financial Reporting

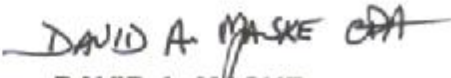
In planning and performing my audit, I considered the Graettinger Community School District's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable conditions described above, I believe item 04-1-A, is a material weakness. Prior year reportable conditions have all been resolved except for item 04-1-A.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Graettinger Community School District and other parties to whom Graettinger Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the Graettinger Community School District during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

October 26, 2004
Spencer, Iowa


DAVID A. MASKE
Certified Public Accountant

GRAETTINGER COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS YEAR ENDED JUNE 30, 2004

PART I - FINDINGS RELATED TO THE FINANCIAL STATEMENTS:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- 04-I-A Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One individual handles most of the financial duties, including recording financial data and reconciling accounts.

RECOMMENDATION - I realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

RESPONSE - We will continue our review our procedures and implement additional controls where possible.

CONCLUSION - Response accepted.

PART II - OTHER FINDINGS RELATED TO STATUTORY REPORTING:

- 04-II-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.

- 04-II-B Certified Budget - Disbursements for the year ended June 30, 2004, exceeded the certified budget amounts in the non-instructional and other expenditures function.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion - Response accepted.

- 04-II-C Questionable Expenditures - No expenditures that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979, were noted.

- 04-II-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- 04-II-E Business Transactions - No business transactions between the District and District officials or employees were noted.

GRAETTINGER COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS YEAR ENDED JUNE 30, 2004

- 04-II-F Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 04-II-G Board Minutes - No transactions were found that I believe should have been approved in the Board minutes but were not.
- 04-II-H Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.
- 04-II-I Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the District's investment policies were noted.
- 04-II-J Certified Annual Report – The Certified Annual Report was filed with the Department of Education timely, and I noted no significant deficiencies in the amounts reported.
- 04-II-K Deficit Balance – At June 30, 2004, the District had a deficit in the Management Fund of \$1,181.

Recommendation - The District should consider options to eliminate this deficit.

Response – Tax collections in the upcoming fiscal year will eliminate the deficit.

Conclusion - Response accepted.